

108TH CONGRESS  
1ST SESSION

# S. 842

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

APRIL 9, 2003

Mr. KERRY introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Affordable Small Business Stimulus and Simplification  
6 Act of 2003”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-  
8 wise expressly provided, whenever in this Act an amend-  
9 ment or repeal is expressed in terms of an amendment  
10 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-  
 2 sion of the Internal Revenue Code of 1986.

3 **SEC. 2. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
 4 **BUSINESSES.**

5 (a) IN GENERAL.—Section 179(b)(1) (relating to dol-  
 6 lar limitation) is amended to read as follows:

7 “(1) DOLLAR LIMITATION.—

8 “(A) IN GENERAL.—The aggregate cost  
 9 which may be taken into account under sub-  
 10 section (a) for any taxable year shall not exceed  
 11 the following applicable amount:

<b>“If the taxable year begins in:</b>	<b>The applicable amount is:</b>
2003 .....	\$35,000
2004 .....	\$36,000
2005 .....	\$37,000
2006 .....	\$38,000
2007 .....	\$39,000
2008 or thereafter .....	\$40,000.

12 “(B) INFLATION ADJUSTMENT.—In the  
 13 case of any taxable year beginning in a calendar  
 14 year after 2008, the \$40,000 amount contained  
 15 in subparagraph (A) shall be increased by an  
 16 amount equal to—

17 “(i) such dollar amount, multiplied by

18 “(ii) the cost-of-living adjustment de-  
 19 termined under section 1(f)(3) for the cal-  
 20 endar year in which the taxable year be-  
 21 gins, by substituting ‘calendar year 2007’

1 for ‘calendar year 1992’ in subparagraph  
 2 (B) thereof.

3 If any amount as adjusted under this subpara-  
 4 graph is not a multiple of \$500, such amount  
 5 shall be rounded to the next highest multiple of  
 6 \$500.’’.

7 (b) EXPANSION OF PHASE-OUT OF LIMITATION.—  
 8 Section 179(b)(2) is amended to read as follows:

9 “(2) REDUCTION IN LIMITATION.—

10 “(A) IN GENERAL.—The limitation under  
 11 paragraph (1) for any taxable year shall be re-  
 12 duced (but not below zero) by the amount by  
 13 which the cost of section 179 property for  
 14 which a deduction is allowable (without regard  
 15 to this subsection) under subsection (a) for  
 16 such taxable year exceeds the following applica-  
 17 ble amount:

“If the taxable year begins in:	The applicable amount is:
2003 .....	\$350,000
2004 .....	\$360,000
2005 .....	\$370,000
2006 .....	\$380,000
2007 .....	\$390,000
2008 or thereafter .....	\$400,000.

18 “(B) INFLATION ADJUSTMENT.—In the  
 19 case of any taxable year beginning in a calendar  
 20 year after 2008, the \$400,000 amount con-

1           tained in subparagraph (A) shall be increased  
2           by an amount equal to—

3                   “(i) such dollar amount, multiplied by

4                   “(ii) the cost-of-living adjustment de-  
5           termined under section 1(f)(3) for the cal-  
6           endar year in which the taxable year be-  
7           gins, by substituting ‘calendar year 2007’  
8           for ‘calendar year 1992’ in subparagraph  
9           (B) thereof.

10          If any amount as adjusted under this subpara-  
11          graph is not a multiple of \$5,000, such amount  
12          shall be rounded to the next highest multiple of  
13          \$5,000.”.

14          (c) TIME OF DEDUCTION.—The second sentence of  
15          section 179(a) (relating to election to expense certain de-  
16          preciable business assets) is amended by inserting “(or,  
17          if the taxpayer elects, the preceding taxable year if the  
18          property was purchased in such preceding year)” after  
19          “service”.

20          (d) EFFECTIVE DATE.—The amendments made by  
21          this section shall apply to taxable years beginning after  
22          December 31, 2003.

1 **SEC. 3. STANDARD DEDUCTION FOR BUSINESS EXPENSES**  
 2 **OF SOLE PROPRIETORS.**

3 (a) IN GENERAL.—Section 162 (relating to trade or  
 4 business expenses) is amended by redesignating subsection  
 5 (p) as subsection (q) and by inserting after subsection (o)  
 6 the following new subsection:

7 “(p) STANDARD DEDUCTION FOR BUSINESS EX-  
 8 PENSES OF SOLE PROPRIETORS.—

9 “(1) IN GENERAL.—For purposes of deter-  
 10 mining a deduction under subsection (a), any sole  
 11 proprietor may elect under this subsection a stand-  
 12 ard deduction in lieu of itemizing expenses.

13 “(2) STANDARD DEDUCTION.—For purposes of  
 14 paragraph (1)—

15 “(A) IN GENERAL.—The standard deduc-  
 16 tion is equal to \$500.

17 “(B) INFLATION ADJUSTMENT.—In the  
 18 case of any taxable year beginning in a calendar  
 19 year after 2004, the \$500 amount contained in  
 20 subparagraph (A) shall be increased by an  
 21 amount equal to—

22 “(i) such dollar amount, multiplied by

23 “(ii) the cost-of-living adjustment de-  
 24 termined under section 1(f)(3) for the cal-  
 25 endar year in which the taxable year be-  
 26 gins, by substituting ‘calendar year 2003’

1 for ‘calendar year 1992’ in subparagraph  
 2 (B) thereof.

3 If any amount as adjusted under this subpara-  
 4 graph is not a multiple of \$50, such amount  
 5 shall be rounded to the nearest multiple of  
 6 \$50.”.

7 (b) EFFECTIVE DATE.—The amendments made by  
 8 this section shall apply to taxable years beginning after  
 9 December 31, 2003.

10 **SEC. 4. MODIFICATIONS OF EXCLUSIONS AND ROLLOVERS**  
 11 **OF GAIN ON QUALIFIED SMALL BUSINESS**  
 12 **STOCK.**

13 (a) EXCLUSION OF GAIN ON QUALIFIED SMALL  
 14 BUSINESS STOCK.—

15 (1) INCREASE IN EXCLUSION PERCENTAGE.—

16 (A) IN GENERAL.—Section 1202(a)(1) (re-  
 17 lating to exclusion for gain from certain small  
 18 business stock) is amended by striking “50 per-  
 19 cent” and inserting “75 percent”.

20 (B) 100-PERCENT EXCLUSION FOR CRIT-  
 21 ICAL TECHNOLOGY AND SPECIALIZED SMALL  
 22 BUSINESS INVESTMENT BUSINESSES.—Section  
 23 1202(a) is amended by adding at the end the  
 24 following new paragraph:

1 “(3) CRITICAL TECHNOLOGY AND SPECIALIZED  
2 SMALL BUSINESS INVESTMENT BUSINESSES.—

3 “(A) IN GENERAL.—In the case of quali-  
4 fied small business stock acquired after the date  
5 of the enactment of this paragraph which is  
6 stock in—

7 “(i) a critical technology corporation,  
8 or

9 “(ii) a corporation which is a special-  
10 ized small business investment company  
11 (as defined in subsection (c)(2)(B)(ii)),  
12 paragraph (1) shall be applied by substituting  
13 ‘100 percent’ for ‘75 percent’.

14 “(B) CRITICAL TECHNOLOGY CORPORA-  
15 TION.—The term ‘critical technology corpora-  
16 tion’ means a corporation substantially all of  
17 the active business activities of which during  
18 substantially all of a taxpayer’s holding period  
19 of stock in the corporation are in connection  
20 with—

21 “(i) transportation or homeland secu-  
22 rity technologies,

23 “(ii) antiterrorism technologies,

1 “(iii) technologies enhancing security  
 2 by improving methods of personal identi-  
 3 fication (including biometrics),

4 “(iv) environmental technologies for  
 5 pollution minimization, remediation, or  
 6 waste management,

7 “(v) national defense technologies, or

8 “(vi) energy efficiency or the develop-  
 9 ment of non-fossil based fuel source tech-  
 10 nologies.”.

11 (C) EMPOWERMENT ZONE CONFORMING  
 12 AMENDMENT.—Section 1202(a)(2)(A) is  
 13 amended—

14 (i) by striking “60 percent” and in-  
 15 serting “100 percent”, and

16 (ii) by striking “50 percent” and in-  
 17 serting “75 percent”.

18 (2) DECREASE IN HOLDING PERIOD.—

19 (A) IN GENERAL.—Section 1202(a)(1) is  
 20 amended by striking “5 years” and inserting “4  
 21 years”.

22 (B) CONFORMING AMENDMENT.—Section  
 23 1202(j)(1)(A) is amended by striking “5 years”  
 24 and inserting “4 years”.



1           (3) EXCLUSION AVAILABLE TO CORPORA-  
2 TIONS.—

3           (A) IN GENERAL.—Subsection (a) of sec-  
4 tion 1202 (relating to partial exclusion for  
5 gains from certain small business stock) is  
6 amended by striking “other than a corpora-  
7 tion”.

8           (B) TECHNICAL AMENDMENT.—Subsection  
9 (c) of section 1202 is amended by adding at the  
10 end the following new paragraph:

11           “(4) STOCK HELD AMONG MEMBERS OF CON-  
12 TROLLED GROUP NOT ELIGIBLE.—Stock of a mem-  
13 ber of a parent-subsidary controlled group (as de-  
14 fined in subsection (d)(3)) shall not be treated as  
15 qualified small business stock while held by another  
16 member of such group.”.

17           (4) STOCK OF LARGER BUSINESSES ELIGIBLE  
18 FOR EXCLUSION.—

19           (A) IN GENERAL.—Paragraph (1) of sec-  
20 tion 1202(d) (defining qualified small business)  
21 is amended by striking “\$50,000,000” each  
22 place it appears and inserting “\$100,000,000”.

23           (B) INFLATION ADJUSTMENT.—Section  
24 1202(d) (defining qualified small business) is  
25 amended by adding at the end the following:

1           “(5) INFLATION ADJUSTMENT OF ASSET LIM-  
 2           TATION.—In the case of stock issued in any calendar  
 3           year after 2004, the \$100,000,000 amount con-  
 4           tained in paragraph (1) shall be increased by an  
 5           amount equal to—

6                     “(A) such dollar amount, multiplied by

7                     “(B) the cost-of-living adjustment deter-  
 8                     mined under section 1(f)(3) for the calendar  
 9                     year, determined by substituting ‘calendar year  
 10                    2003’ for ‘calendar year 1992’ in subparagraph  
 11                    (B) thereof.

12           If any amount as adjusted under the preceding sen-  
 13           tence is not a multiple of \$10,000, such amount  
 14           shall be rounded to the nearest multiple of  
 15           \$10,000.”.

16           (b) INCREASE IN PERIOD TO PURCHASE REPLACE-  
 17           MENT STOCK AND QUALIFY FOR ROLLOVER.—

18                   (1) IN GENERAL.—Section 1045(a)(2) (relating  
 19                   to nonrecognition of gain) is amended by striking  
 20                   “60-day” and inserting “180-day”.

21                   (2) CONFORMING AMENDMENT.—Section  
 22                   1045(b)(2) is amended by striking “60-day” and in-  
 23                   serting “180-day”.

24           (c) EFFECTIVE DATES.—

1           (1) EXCLUSION.—The amendments made by  
2           subsection (a) shall apply to stock issued after the  
3           date of the enactment of this Act.

4           (2) ROLLOVER.—The amendment made by sub-  
5           section (b) shall apply to sales after the date of the  
6           enactment of this Act.

7   **SEC. 5. RECOVERY PERIOD FOR DEPRECIATION OF COM-**  
8                           **PUTERS AND PERIPHERAL EQUIPMENT AND**  
9                           **COMPUTER SOFTWARE.**

10          (a) RECOVERY PERIOD FOR COMPUTERS.—

11               (1) 3-YEAR PERIOD.—

12                       (A) IN GENERAL.—Subparagraph (A) of  
13                       section 168(e)(3) (relating to 3-year property)  
14                       is amended by striking “and” at the end of  
15                       clause (ii), by striking the period at the end of  
16                       clause (iii) and inserting “, and”, and by add-  
17                       ing at the end the following new clause:

18                               “(iv) any computers or peripheral  
19                               equipment (as defined in subsection  
20                               (i)(2)(B)).”.

21                       (B) CONFORMING AMENDMENT.—Clause  
22                       (iv) of section 168(e)(3)(B) (relating to 5-year  
23                       property) is amended by inserting “(except  
24                       computers or peripheral equipment)” before the  
25                       comma.

1           (2) 3-YEAR RECOVERY PERIOD UNDER ALTER-  
 2       NATIVE DEPRECIATION SYSTEM FOR TAX-EXEMPT  
 3       USE PROPERTY, ETC.—Subparagraph (C) of section  
 4       168(g)(3) (relating to alternative depreciation sys-  
 5       tem for certain property) is amended to read as fol-  
 6       lows:

7                   “(C) QUALIFIED TECHNOLOGICAL EQUIP-  
 8       MENT.—

9                   “(i) IN GENERAL.—Except as pro-  
 10       vided in clause (ii), in the case of any  
 11       qualified technological equipment, the re-  
 12       covery period used for purposes of para-  
 13       graph (2) shall be 5 years.

14                   “(ii) COMPUTERS OR PERIPHERAL  
 15       EQUIPMENT.—In the case of any computer  
 16       or peripheral equipment, the recovery pe-  
 17       riod used for purposes of paragraph (2)  
 18       shall be 3 years.”.

19       (b) 24-MONTH USEFUL LIFE FOR DEPRECIATION OF  
 20       COMPUTER SOFTWARE.—Subparagraph (A) of section  
 21       167(f)(1) (relating to computer software) is amended by  
 22       striking “36 months” and inserting “24 months”.

23       (c) EFFECTIVE DATE.—The amendments made by  
 24       this section shall apply to property placed in service after  
 25       the date of the enactment of this Act.

1 **SEC. 6. CLARIFICATION OF DEDUCTION FOR HEALTH IN-**  
 2 **SURANCE COSTS OF SELF-EMPLOYED INDIV-**  
 3 **VIDUALS.**

4 (a) IN GENERAL.—The first sentence of section  
 5 162(l)(2)(B) is amended to read as follows: “Paragraph  
 6 (1) shall not apply to any taxpayer for any calendar month  
 7 for which the taxpayer participates in any subsidized  
 8 health plan maintained by any employer (other than an  
 9 employer described in section 401(c)(4)) of the taxpayer  
 10 or the spouse of the taxpayer.”.

11 (b) EFFECTIVE DATE.—The amendments made by  
 12 this section shall apply to taxable years beginning after  
 13 December 31, 2002.

14 **SEC. 7. DISCLOSURE OF TAX INFORMATION TO FACILITATE**  
 15 **COMBINED EMPLOYMENT TAX REPORTING.**

16 Section 6103(d)(5) is amended to read as follows:

17 “(5) DISCLOSURE FOR COMBINED EMPLOY-  
 18 MENT TAX REPORTING.—The Secretary may disclose  
 19 taxpayer identity information and signatures to any  
 20 agency, body, or commission of any State for the  
 21 purpose of carrying out with such agency, body, or  
 22 commission a combined Federal and State employ-  
 23 ment tax reporting program approved by the Sec-  
 24 retary. Subsections (a)(2) and (p)(4) and sections  
 25 7213 and 7213A shall not apply with respect to dis-

1 closures or inspections made pursuant to this para-  
 2 graph.”.

3 **SEC. 8. INCOME AVERAGING FOR FARMERS AND FISHER-**  
 4 **MEN NOT TO INCREASE ALTERNATIVE MIN-**  
 5 **IMUM TAX LIABILITY.**

6 (a) IN GENERAL.—Section 55(c) (defining regular  
 7 tax) is amended by redesignating paragraph (2) as para-  
 8 graph (3) and by inserting after paragraph (1) the fol-  
 9 lowing new paragraph:

10 “(2) COORDINATION WITH INCOME AVERAGING  
 11 FOR FARMERS AND FISHERMEN.—Solely for pur-  
 12 poses of this section, section 1301 (relating to aver-  
 13 aging of farm and fishing income) shall not apply in  
 14 computing the regular tax.”.

15 (b) ALLOWING INCOME AVERAGING FOR FISHER-  
 16 MEN.—

17 (1) IN GENERAL.—Section 1301(a) is amended  
 18 by striking “farming business” and inserting “farm-  
 19 ing business or fishing business”.

20 (2) DEFINITION OF ELECTED FARM INCOME.—

21 (A) IN GENERAL.—Clause (i) of section  
 22 1301(b)(1)(A) is amended by inserting “or fish-  
 23 ing business” before the semicolon.

24 (B) CONFORMING AMENDMENT.—Subpara-  
 25 graph (B) of section 1301(b)(1) is amended by

1 inserting “or fishing business” after “farming  
2 business” both places it occurs.

3 (3) DEFINITION OF FISHING BUSINESS.—Sec-  
4 tion 1301(b) is amended by adding at the end the  
5 following new paragraph:

6 “(4) FISHING BUSINESS.—The term ‘fishing  
7 business’ means the conduct of commercial fishing  
8 as defined in section 3 of the Magnuson-Stevens  
9 Fishery Conservation and Management Act (16  
10 U.S.C. 1802).”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2003.

14 **SEC. 9. MODIFICATION OF UNRELATED BUSINESS INCOME**  
15 **LIMITATION ON INVESTMENT IN CERTAIN**  
16 **DEBT-FINANCED PROPERTIES.**

17 (a) IN GENERAL.—Section 514(c)(6) (relating to ac-  
18 quisition indebtedness) is amended—

19 (1) by striking “include an obligation” and in-  
20 serting “include—

21 “(A) an obligation”,

22 (2) by striking the period at the end and insert-  
23 ing “, or”, and

24 (3) by adding at the end the following:

1           “(B) indebtedness incurred by a small  
 2           business investment company licensed under the  
 3           Small Business Investment Act of 1958 which  
 4           is evidenced by a debenture—

5                   “(i) issued by such company under  
 6                   section 303(a) such Act, or

7                   “(ii) held or guaranteed by the Small  
 8                   Business Administration.”.

9           (b) EFFECTIVE DATE.—The amendment made by  
 10          subsection (a) shall apply to acquisitions made on or after  
 11          the date of the enactment of this Act.

12       **SEC. 10. EXCLUSION FROM PARTNERSHIP FILING RE-**  
 13                       **QUIREMENTS FOR MARRIED COUPLES AS**  
 14                       **BUSINESS CO-OWNERS.**

15          (a) IN GENERAL.—Section 6031 (relating to return  
 16          of partnership income) is amended by adding the following  
 17          new subsection:

18               “(f) EXCEPTION FOR MARRIED INDIVIDUALS AS  
 19          PARTNERSHIP CO-OWNERS.—This section shall not apply  
 20          to a partnership for any taxable year if—

21                   “(1) all of the capital or profits interests in the  
 22                  partnership are owned by 2 individuals who are a  
 23                  married couple (as determined under section 7703),

24                   “(2) such individuals elect the application of  
 25                  this subsection for such taxable year, and



1           “(3) such individuals file a joint return for all  
 2           taxable years of such individuals which include items  
 3           from such taxable year of the partnership.

4   The Secretary shall prescribe regulations for the retention  
 5   of such records as may be necessary for the administration  
 6   of this chapter in any case where an election is made  
 7   under this subchapter.”.

8           (b) MARRIED COUPLES AS BUSINESS CO-OWNERS  
 9   PERMITTED TO FILE SEPARATE SELF-EMPLOYMENT  
 10   TAX SCHEDULES.—Section 6017 (relating to self-employ-  
 11   ment tax returns) is amended by adding the following new  
 12   sentence: “The preceding sentence shall apply even if the  
 13   husband and wife elect, under section 6031(f), to be ex-  
 14   cluded from the filing requirements of section 6031.”.

15          (c) EFFECTIVE DATE.—The amendments made by  
 16   this section shall apply to taxable years beginning after  
 17   the date of the enactment of this Act.

○